Applicants Ex. 3.4
Revised

REVENUE REQUIREMENT ANALYSIS

The Applicants have compared Illinois Power's 2007 revenue requirement as owned by Dynegy and as owned by Ameren under three sets of assumptions relating to the return on rate base. A discussion of the line items in each case follows.

Rate Base

In the comparison in each case, Illinois Power's net plant (original cost less depreciation) is assumed to be $1.9 billion at 12/31/06. While Ameren has committed to cause Illinois Power to invest $275-$325 million on capital projects during 2005 and 2006, which is somewhat more than Illinois Power might be expected to invest during this period if the Reorganization did not occur, it would not be appropriate to reflect any incremental investment by Illinois Power under Ameren ownership in an analysis of whether the reorganization of Illinois Power causes an adverse effect on rates. If the investment is prudent and used and useful, the Commission will allow it to be reflected in rates; if the investment is not prudent or used and useful, the Commission will exclude it from rate base. It would be nonsensical for the Commission to conclude that an acquisition would have an adverse effect on rates due to rate impact of prudent, used and useful investment that a utility might not be able to make without the benefit of new ownership. Accordingly, I have assumed that Illinois Power has the same investment in net plant at 12/31/06 in both the acquisition and no acquisition scenarios.

In each case, the net difference in deferred taxes between the acquisition and no acquisition scenarios caused by the 338(h)(10) election is $310 million. This change was calculated by Mr. James Warren as discussed in his direct testimony. Mr. Warren also explains the nature of the 338(h)(10) election.

Capital Structure

In each case, the capital structure under Ameren ownership consists of 55% common equity and 45% debt. This assumption is based on Ameren's commitment to bring Illinois Power's common equity ratio to 50-60% of total capital. I used the midpoint of that range. I have calculated, based on forecast information provided to me by Illinois Power, that, in the absence of an acquisition, Illinois Power's capital structure at 12/31/06 would be approximately 50% common equity, with the balance consisting of long-term debt and preferred stock, which I refer to collectively as "Debt" in the comparison.

Cost of Equity

In each case, I have assumed that Illinois Power's cost of equity under Ameren ownership would be 10.5%. I note that it is neither particularly significant nor relevant whether this is an accurate forecast of the cost of equity for Illinois Power in 2007. What is both relevant and significant is how this cost of equity compares to what the allowed return on equity would be if Illinois Power is not acquired by Ameren and recapitalized. I used a 10.5% return in my analysis because it was the return on equity allowed by the Illinois Commerce Commission in AmerenUE's most recent gas rate case order, entered in October, 2003. My use of this value should not be interpreted as an endorsement of it as an appropriate return on common equity for Illinois Power or any of the Ameren utilities in any future rate proceeding.

I have examined the effect of the acquisition in three cases. In Case 1, I have assumed that the Commission would allow Illinois Power the same rate of return on common equity irrespective of ownership. In this regard, I am assuming that the

Commission would conclude that any and all incremental risk associated with Illinois Power is attributable to its relationship with Dynegy and barred from the rate of return calculation by Section 9-230 of the Illinois Public Utilities Act. In Case 2, I have assumed that the Commission would find that some portion of the incremental risk associated with Illinois Power is not attributable to the relationship with Dynegy, and would allow Illinois Power a somewhat higher (100 basis points) rate of return on common equity. In Case 3, I have assumed that the Commission would find that an even greater portion of the incremental risk associated with Illinois Power is attributable to factors other than its affiliate relationships, and would allow Illinois Power a rate of return on common equity 200 basis points higher than it would under Ameren ownership.

Cost of Debt

As with the cost of common equity, the cost of debt under Dynegy ownership differs in each of the three cases. In each case, I assumed that, under Ameren ownership, the weighted cost of debt would be 6%, reflecting a successful recapitalization of Illinois Power. Under Dynegy ownership, in Case 1 I have assumed that the Commission would disallow all debt costs above a 7% interest rate, on the basis that the Commission would conclude that any and all incremental risk associated with Illinois Power is attributable to its relationship with Dynegy and barred from the rate of return calculation by Section 9-230 of the Illinois Public Utilities Act. In Case 2, I have assumed that the Commission would find that some portion of the incremental risk associated with Illinois Power is not attributable to the relationship with Dynegy, and would allow Illinois Power a modestly higher weighted cost of debt (7.9%). In Case 3, I have assumed that the Commission would find that an even greater portion of the incremental risk associated with Illinois Power is attributable to factors other than its affiliate relationships, and would allow Illinois Power to recover its full weighted cost of debt (8.8%). In this regard, I assumed that the Illinois Power long-term debt maturing in 2005 would be replaced with debt issued on terms comparable to Illinois Power's most recent debt issuance, the 11.5% bonds.

Tax Rate

The effective tax rate was constant in each case, set equal to 39.75%.

Return on Rate Base

In each instance, the return on rate base was computed using the applicable capital structure and weighted cost of common equity and weighted cost of debt.

Interest Tax Savings

This item reflects the reduction in income tax expense associated with the particular weighted cost of debt used.

After-Tax Return Requirement

This item was calculated by deducting interest tax savings from the result of the weighted cost of capital times the rate base.

EBIT

The earnings before income taxes (EBIT) represent the after-tax return requirement grossed up for income taxes.

Depreciation and Amortization

Depreciation and amortization of assets (exclusive of the amortization of Merger Costs) were constant, set at $90 million, based on Illinois Power's forecasts.

Amortization of Merger Costs

This item was reflected only in the Ameren ownership calculations. It reflects the annual amortization of the $100 million of merger costs Ameren seeks authorization to recover.

EBITDA

The earnings before income taxes, depreciation and amortization represent EBIT plus the applicable depreciation and amortization.

O&M and General & Administrative Expenses

These expenses were constant in all cases, set at $310 million, based on Illinois Power's forecasts.

Synergies

In the calculations made to determine the revenue requirement under Ameren ownership, a deduction of $13 million was made to reflect anticipated synergies. These synergies include labor savings from reductions in staff and non-fuel O & M savings, from combining operations and eliminating duplication.

Net O&M

This value represents O&M and G&A expenses minus synergies.

Gross Margin

This value represents the sum of EBITDA and Net O&M.

Purchased Power + Gas

This value represents the cost of acquiring electric power and gas for delivery to customers. The lower cost projected under Ameren ownership arises from two factors. First, and principally, it is expected that an investment grade Illinois Power will be able to obtain electric and gas supply on substantially better terms than an Illinois Power that is substantially below investment grade. I used the actual credit spread between Dynegy and Ameren long term debt of approximately 4.7% as a proxy for the credit spread between Illinois Power under Dynegy ownership and Illinois Power under Ameren ownership. Accordingly, I assumed that Illinois Power under Dynegy ownership would pay approximately 4.7% more for electricity and gas in 2007 than it would if owned by Ameren and brought to investment grade. Second, Ameren believes that it will be able to achieve lower purchased power and gas prices by an additional 1.5% versus a Dynegy-owned Illinois Power Dynegy due to the impacts of bulk purchasing and transportation arrangements as well as greater purchasing power.

Total Revenue Required

This value represents the sum of all the components of the Illinois Power revenue requirement in each case.

Revenue Requirement Comparison

Case 1

2007 Rate Case

Under Ameren ownership

Rate Base wo/ transaction		1,600	at end of 2006
Net change due to step-up		310	
New Rate Base =		1,910	
	% of RBase	Rate	
Equity	55%	10.5%	
Debt	45%	6.0%	
Tax Rate =	39.75%		
Return on Rate Base =	8.5%	162	
Interest Tax Savings =		(20)	
After-Tax Return Requirement =		141	
EBIT =		235	
Depreciation & Amortization		90	
Acquisition Adjustment Amortization		17	
D&A =		107	
EBITDA =		342	
O&M and G&A Expense		310	
Synergies		(13)	
Net O&M =		297	
Gross Margin =		639	
Purchased Power + Gas =		887	
Total Revenue Required =		**1,525**	

Under Dynegy ownership

Rate Base =		1,600	at end of 2006
	% of RBase	Rate	
Equity	50%	10.5%	
Debt*	50%	7.0%	
Tax Rate =	39.75%		
Return on Rate Base =	8.8%	140	
Interest Tax Savings =		(22)	
After-Tax Return Requirement =		118	
EBIT =		195	
Depreciation & Amortization		90	
Acquisition Adjustment Amortization		-	
D&A =		90	
EBITDA =		285	
O&M and G&A Expense		310	
Synergies		-	
Net O&M =		310	
Gross Margin =		595	
Purchased Power + Gas =		942	
Total Revenue Required =		**1,537**	

* Total actual interest expense is expected to be approximately $101 million per year higher than that which is allowed in rates.

Revenue Requirement Comparison

Case 2

2007 Rate Case

Under Ameren ownership

Rate Base wo/ transaction		1,600	at end of 2006
Net change due to step-up		310	
New Rate Base =		1,910	

	% of RBase	Rate
Equity	55%	10.5%
Debt	45%	6.0%

Tax Rate = 39.75%

Return on Rate Base =	8.5%	162
Interest Tax Savings =		(20)
After-Tax Return Requirement =		141
EBIT =		235
Depreciation & Amortization		90
Acquisition Adjustment Amortization		17
D&A =		107
EBITDA =		342
O&M and G&A Expense		310
Synergies		(13)
Net O&M =		297
Gross Margin =		639
Purchased Power + Gas =		887
Total Revenue Required =		**1,525**

Under Dynegy ownership

Rate Base =	1,600	at end of 2006

	% of RBase	Rate
Equity	50%	11.5%
Debt*	50%	7.9%

Tax Rate = 39.75%

Return on Rate Base =	9.7%	155
Interest Tax Savings =		(25)
After-Tax Return Requirement =		130
EBIT =		216
Depreciation & Amortization		90
Acquisition Adjustment Amortization		-
D&A =		90
EBITDA =		306
O&M and G&A Expense		310
Synergies		-
Net O&M =		310
Gross Margin =		616
Purchased Power + Gas =		
Total Revenue Required =		~~#VALUE!~~ 1,558

* Total actual interest expense is expected to be approximately $94 million per year higher than that which is allowed in rates.

Applicants Ex. 3.4
Revised

Revenue Requirement Comparison

Case 3

2007 Rate Case

Under Ameren ownership

Rate Base wo/ transaction		1,600	at end of 2006
Net change due to step-up		310	
New Rate Base =		1,910	

	% of RBase	Rate
Equity	55%	10.5%
Debt	45%	6.0%

Tax Rate = 39.75%

Return on Rate Base =	8.5%	162
Interest Tax Savings =		(20)
After-Tax Return Requirement =		141
EBIT =		235
Depreciation & Amortization		90
Acquisition Adjustment Amortization		17
D&A =		107
EBITDA =		342
O&M and G&A Expense		310
Synergies		(13)
Net O&M =		297
Gross Margin =		639
Purchased Power + Gas =		887
Total Revenue Required =		**1,525**

Under Dynegy ownership

Rate Base =		1,600	at end of 2006

	% of RBase	Rate
Equity	50%	12.5%
Debt*	50%	8.8%

Tax Rate = 39.75%

Return on Rate Base =	10.7%	170
Interest Tax Savings =		(28)
After-Tax Return Requirement =		142
EBIT =		236
Depreciation & Amortization		90
Acquisition Adjustment Amortization		-
D&A =		90
EBITDA =		326
O&M and G&A Expense		310
Synergies		-
Net O&M =		310
Gross Margin =		636
Purchased Power + Gas =		942
Total Revenue Required =		**1,578**

* Total actual interest expense is expected to be approximately $87 million per year higher than that which is allowed in rates.